

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

MARION, HOWELL, OCEOLA & GENOA SEWER
& WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2005

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY

SEWER & WATER AUTHORITY BOARD

Chairman - Gary McCririe
Vice-Chairman - Robert Hanvey
Treasurer - Robin Hunt
Secretary - William Bamber
Member - Maureen Cross
Member - James Phelan
Member - Lance Schuhmacher
Member - Daniel Lowe

SEWER & WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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December 15, 2005

Marion, Howell, Oceola & Genoa
Sewer & Water Authority
2911 Dorr Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Marion, Howell, Oceola & Genoa Sewer & Water Authority as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion, Howell, Oceola & Genoa Sewer & Water Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion, Howell, Oceola & Genoa Sewer & Water Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis
September 30, 2005

Within this section of the Marion, Howell, Ocala & Genoa Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Other information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$36,941,064. This is a \$7,513,014 increase over last year's net assets of \$29,428,050.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>09/30/2005</u>	<u>09/30/2004</u>
Current and other assets	\$ 1,740,926	\$ 1,156,916
Restricted assets	1,444,275	1,435,023
Capital assets, net	<u>34,264,893</u>	<u>27,261,856</u>
Total assets	<u>37,450,094</u>	<u>29,853,795</u>
Accounts payable	70,366	92,521
Due to others (from restricted assets)	<u>438,664</u>	<u>333,224</u>
Total liabilities	<u>509,030</u>	<u>425,745</u>
Net assets:		
Invested in capital assets	34,264,893	27,261,856
Unrestricted	<u>2,676,171</u>	<u>2,166,194</u>
Total net assets	<u>\$ 36,941,064</u>	<u>\$ 29,428,050</u>

Summary of Changes in Net Assets

	<u>09/30/2005</u>	<u>09/30/2004</u>
Operating revenues	<u>\$ 1,876,987</u>	<u>\$ 1,585,707</u>
Operating expenses		
System operations	1,721,832	1,716,594
Administrative	158,087	200,593
Total operating expenses	<u>1,879,919</u>	<u>1,917,187</u>
Operating (loss)	(2,932)	(331,480)
Non-operating revenues, net	79,446	40,432
Capital contributions	<u>7,436,500</u>	<u>4,640,435</u>
Net income	7,513,014	4,349,387
Beginning net assets	<u>29,428,050</u>	<u>25,078,663</u>
Ending net assets	<u><u>\$ 36,941,064</u></u>	<u><u>\$ 29,428,050</u></u>

Revenues from operations increased by 18%, as usage increased due to 417 new users being added to the system and a very hot, dry summer. Annual water pumped through the plant increased from 517.1 million gallons for fiscal year ended September 30, 2005, to 577.3 million gallons, a 11.6% increase. Operating expenses increased slightly over the prior year due to depreciation expense. Member capital cash contributions increased by \$3,725,000 because of the expansion project in progress.

Member capital (non-cash) contributions or additions to the water system by developers and townships decreased by \$929,000 mainly because of the large developments in Oceola Township were near completion in the prior year.

As a result, net income increased from \$4,349,387 for the year ended September 30, 2004 to \$7,513,014 for the year ended September 30, 2005.

Capital and Debt Administration

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance the construction of the water treatment plant, various pumps and water lines in the respective townships. The townships are responsible for paying their own debt.

The member townships and various developers directly spent \$1,436,500 for additions to the system (water lines, pumps, etc.). This amount is recorded as capital contributions - additions to system or income in the statement of revenues and expenses since the infrastructure is added to the Authority's fixed assets and will be depreciated over future years. In addition, the Authority paid out \$6.3 million for the ongoing \$11 million plant expansion project.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain relatively strong. The population in the service area is expected to grow with new users being regularly added to the system. The growth will however, more than likely slow down compared to prior years with the downturn in the economy.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

FINANCIAL
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 845,382	
Accounts receivable - water operations	827,590	
Accounts receivable - Genoa Township	19,784	
Prepaid expenses	<u>48,170</u>	
Total current assets		\$ 1,740,926

RESTRICTED ASSETS

Cash - (collected on behalf of others)	193,288	
Cash - expansion	191,084	
Cash - equipment replacement	619,700	
Cash - Howell Township water tower	140,947	
Cash - Escrows	<u>299,256</u>	
Total restricted assets		1,444,275

CAPITAL ASSETS

Land	328,982	
Water System	31,145,105	
Equipment	<u>118,802</u>	
	31,592,889	
Less accumulated depreciation	<u>5,437,732</u>	
Net property, plant and equipment		26,155,157

CONSTRUCTION IN PROGRESS

8,109,736

Total assets

37,450,094

LIABILITIES

CURRENT LIABILITIES (from unrestricted assets)

Accounts payable - water operations	70,366
-------------------------------------	--------

CURRENT LIABILITIES (from restricted assets)

Due to others - escrows	299,256
Due to other water and sewer districts	<u>139,408</u>

Total current liabilities (from restricted assets)

438,664

Total current liabilities

509,030

NET ASSETS

NET ASSETS

Investment in capital assets	34,264,893	
Unreserved	<u>2,676,171</u>	
Total net assets		<u>\$ 36,941,064</u>

The accompanying notes are an integral part of these financial statements

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

OPERATING REVENUES		
Billings - operations	\$ 1,854,221	
Meter sales - net	19,784	
Grant - wellhead protection	<u>2,982</u>	
Total operating revenues		<u>\$ 1,876,987</u>
OPERATING EXPENSES		
Labor - contract	566,566	
Labor - non contract	28,112	
Lab testing	2,409	
Chemicals and supplies	2,636	
Repairs and maintenance	150,950	
Inspections and testing	2,125	
Utilities	162,041	
Telephone	18,320	
Meters and supplies for meters	1,526	
Miss digs	234	
Depreciation	<u>786,913</u>	
Total operating expenses		1,721,832
ADMINISTRATION EXPENSES		
Office expenses	1,353	
Per diem - board members	12,525	
Bookkeeping	6,480	
Accounting and audit fees	20,335	
Insurance	35,354	
Legal fees	752	
Wellhead protection and expenses	339	
Administration - billing preparation	75,337	
Consulting and engineering	<u>5,612</u>	
Total administration expenses		<u>158,087</u>
Total expenses		<u>1,879,919</u>
OPERATING (LOSS)		<u>\$ (2,932)</u>

The accompanying notes are an integral part of these financial statements

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS- (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NON-OPERATING REVENUES

Interest income	\$ 14,132
Rental income	36,855
Other income	<u>28,459</u>

Total non-operating revenue \$ 79,446

CAPITAL CONTRIBUTIONS

Member contributions - cash	6,000,000
Developer contributions - additions to system	<u>1,436,500</u>

Total capital contributions 7,436,500

Net income 7,513,014

NET ASSETS, OCTOBER 1, 2004 29,428,050

NET ASSETS, SEPTEMBER 30, 2005 \$ 36,941,064

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 3,137,367
Receipts (net) from developers, others	365,200
Receipts from state - grant	2,982
Payments to vendors	<u>(2,681,578)</u>

Net cash from operating activities \$ 823,971

CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES

Member contributions	6,000,000
Acquisition of capital assets	(22,394)
Acquisition of construction in progress	<u>(6,331,056)</u>

Net cash from capital and related financing activities (353,450)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	14,132
Rental income	<u>36,855</u>

Net cash from investing activities 50,987

Increase in cash 521,508

CASH AT OCTOBER 1, 2004 1,768,149

CASH AT SEPTEMBER 30, 2005 \$ 2,289,657

RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM (USED IN) OPERATING ACTIVITIES

Operating (loss)	\$ (2,932)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities	
Depreciation expenses	786,913
Changes in assets and liabilities	
Receivables, net	(69,460)
Accounts payables, net	6,304
Prepaid expenses	(2,294)
Due to others, net	<u>105,440</u>

Net cash from operating activities \$ 823,971

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Marion, Howell and Oceola Sewer & Water Authority was incorporated on February 28, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. On March 20, 1996 the articles of incorporation were amended to add Genoa Township to the Authority. The four incorporating municipal entities are Marion, Howell, Oceola and Genoa Townships. The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The construction of a water system was completed in December of 1997. Thus, the Marion, Howell, Oceola and Genoa Sewer & Water Authority (MHOG) began operations in January of 1998.

The financing of the water system was done mostly by the sale of contract bonds which are retired through special assessments by the various townships through the Livingston County Department of Public Works. There were several construction funds set-up to administer the disbursements of funds to pay for the construction at the Livingston County Department of Public Works. Disbursements of funds have also been paid out of various funds maintained by the various townships for construction of the system.

The Authority board is composed of two voting representatives from each township. Each representative serves a one year term. The four townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective township.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES - continued

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM, AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2004.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
First National Bank, Howell Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>2,189,657</u>	<u>2,762,953</u>
	<u>\$ 2,289,657</u>	<u>\$ 2,862,953</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of September 30, 2005, approximately \$50,461 of the outstanding \$827,590 accounts receivable went on the tax roll for collection. The Authority will receive the \$50,461 by March of 2006 through the tax collection process. The remaining accounts receivable of \$777,129 (\$827,590 - \$50,461) were under 90 days old as of September 30, 2005.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment:

	Balance 10-1-04	Additions	(Deletions)	Balance 9-30-05
Land	\$ 328,982	\$	\$	\$ 328,982
Water system	29,708,605	1,436,500		31,145,105
Equipment	<u>96,408</u>	<u>22,394</u>		<u>118,802</u>
Total	<u>\$ 30,133,995</u>	<u>\$ 1,458,894</u>	<u>\$</u>	<u>\$ 31,592,889</u>
Construction in progress	<u>\$ 1,778,680</u>	<u>\$ 6,331,056</u>	<u>\$</u>	<u>\$ 8,109,736</u>

The Authority is approximately 74% complete with its expansion of the water treatment plant. Total costs are estimated to be approximately \$11,000,000.

The following is a summary of changes in accumulated depreciation:

Balance October 1, 2004	\$ 4,650,819
Depreciation incurred for the year ended September 30, 2005	<u>786,913</u>
Balance September 30, 2005	<u>\$ 5,437,732</u>

Depreciation related to the water system and equipment is recorded as depreciation expense on the statement of revenues and expenses. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset which is as follows:

Water system - plant and distribution system	40 years
Equipment	5 & 7 years

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 6 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The indirect method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance October 1, 2004	Ending Balance September 30, 2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 333,126	\$ 845,382
RESTRICTED ASSETS		
Cash and cash equivalents	<u>1,435,023</u>	<u>1,444,275</u>
Total cash and cash equivalents	<u>\$ 1,768,149</u>	<u>\$ 2,289,657</u>

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 1,876,987
Depreciation	786,913
Total assets	37,450,094
Total net assets	36,941,064
Net income	7,513,014

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 9 - BUDGET INFORMATION

The Authority adopts an annual budget for operations of the water system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions from developers and members
- Major purchases from its reserve cash account

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account.
- Transfers to reserves from Operations and Maintenance cash account.

The following schedule is a reconciliation between the Statement of Revenues, Expenses and Changes in Net Assets (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

Per statement of Revenues, Expenses and Changes in Net Assets		
Net income		\$ 7,513,014
Reconciling items		
Additions		
Depreciation expense		786,913
Deductions		
Transfers to reserves	(181,855)	
Contributions	(7,436,500)	
Capital purchases from Operations and Maintenance	<u>(17,619)</u>	
Total deductions		<u>(7,635,974)</u>
Net revenues over expenses and transfers per budget to actual report		<u>\$ 663,953</u>

SUPPLEMENTARY
INFORMATION

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS – BUDGET TO ACTUAL – OPERATIONS ONLY
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Actual One Year 9-30-05	Budget One Year 9-30-05	Variance Favorable (Unfavorable)
REVENUES			
Billings	\$ 1,854,221	\$ 1,520,000	\$ 334,221
Other revenues	28,459	8,600	19,859
Rental income – Howell Tower	36,855	36,855	
Wellhead Prot. Grant	2,982	2,982	
Meter sales	19,784	19,784	
Interest income	14,132	6,500	7,632
Total revenues	<u>1,956,433</u>	<u>1,594,721</u>	<u>361,712</u>
EXPENSES – OPERATIONS			
Labor - contract	566,566	570,000	3,434
Labor – non contract	28,112	35,000	6,888
Lab testing	2,409	5,000	2,591
Chemicals and supplies	2,636	15,000	12,364
Repairs and materials – grounds/building	3,536	8,000	4,464
Repairs and materials - other	147,414	250,000	102,586
Inspection and testing	2,125	9,000	6,875
Utilities - electric	150,782	160,000	9,218
Utilities - gas	11,259	15,000	3,741
Telephone	18,320	20,000	1,680
Meters and supplies for meters	1,526	5,000	3,474
Miss Dig	234	1,500	1,266
Capital purchases	17,619	25,000	7,381
Total operating expenses	<u>952,538</u>	<u>1,118,500</u>	<u>165,962</u>
EXPENSES – ADMINISTRATION			
Office expenses	1,353	1,500	147
Per diem – board members	12,525	14,500	1,975
Bookkeeping	6,480	6,600	120
Accounting and audit fees	20,335	21,000	665
Insurance	35,354	40,000	4,646
Legal	752	2,500	1,748
Wellhead Prot. expenses	339	4,500	4,161
Administration – billing preparation	75,337	77,000	1,663
Consulting and engineering	5,612	15,000	9,388
Total administration expenses	<u>158,087</u>	<u>182,600</u>	<u>24,513</u>
TRANSFERS TO RESERVES FROM O & M	145,000	145,000	
TRANSFERS TO RESERVES – HOWELL TOWER RENT	36,855	36,855	
Total transfers to reserves	<u>181,855</u>	<u>181,855</u>	
TOTAL EXPENSES AND TRANSFERS	<u>1,292,480</u>	<u>1,482,955</u>	<u>190,475</u>
Net revenues over expenses and transfers	<u>\$ 663,953</u>	<u>\$ 111,766</u>	<u>\$ 552,187</u>

This schedule is prepared to present revenues and expenses related to current operations only and includes capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Assets.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS - OPERATIONS ONLY
COMPARISON OVER PAST EIGHT YEARS

	<u>9/30/2005</u>	<u>9/30/2004</u>	<u>9/30/2003</u>	<u>9/30/2002</u>	<u>9/30/2001</u>
REVENUES					
Billings	\$ 1,854,221	\$ 1,530,160	\$ 1,364,164	\$ 1,309,370	\$ 985,744
Interest income	14,132	6,007	7,571	6,758	10,515
Rental income - Howell Tower	36,855	34,425	28,350		
Wellhead protection grant	2,982	21,845		9,585	5,686
Meter sales	19,784	31,916	24,398	21,155	46,702
Other income	<u>28,459</u>	<u>1,786</u>	<u>3,294</u>	<u>2,847</u>	<u>11,567</u>
Total revenues	<u>1,956,433</u>	<u>1,626,139</u>	<u>1,427,777</u>	<u>1,349,715</u>	<u>1,060,214</u>
EXPENSES – OPERATIONS					
Labor – contract	566,566	514,614	457,495	493,017	339,796
Labor – non-contract	28,112	25,112	67,385	126,248	137,135
Lime sludge removal			31,825	25,000	
Lab testing	2,409	4,061	448	1,967	933
Chemicals and supplies	2,636	9,538	16,400	58,729	59,131
R & M - grounds and building	3,536	6,964	6,955	12,323	11,852
R & M – other	147,414	237,992	183,885	139,306	63,352
Inspections and testing	2,125	5,968	1,859		1,769
Utilities - electric	150,782	123,322	112,977	109,620	98,615
Utilities – gas	11,259	7,197	6,075	4,417	5,160
Telephone	18,320	15,710	15,723	11,727	8,294
Meter installs - labor				6,020	5,031
Meter and supplies for meters	1,526	1,984	3,567	1,265	2,636
Miss Dig	234	1,128	862	862	110
Other					
Capital purchases	<u>17,619</u>				
Total expenses - operations	<u>952,538</u>	<u>953,590</u>	<u>905,456</u>	<u>990,501</u>	<u>733,814</u>
EXPENSES – ADMINISTRATION					
Office expenses	1,353	269	1,152	1,323	899
Per Diem - board members	12,525	12,525	12,850	9,475	10,425
Bookkeeping	6,480	6,480	6,300		
Accounting/audit fees	20,335	19,485	18,500	16,170	17,175
Insurance	35,354	34,031	30,041	24,889	
Vulnerability assessment		15,600			
Legal	752				
Mapping project		8,031	2,768		
Wellhead protection expenses	339	32,046	9,073	11,394	5,686
Meter reading - billing preparation	75,337	69,501	58,300	49,152	40,936
Sewer assessment					
Consulting and engineering	<u>5,612</u>	<u>2,625</u>	<u>575</u>	<u>987</u>	
Total expenses - administration	<u>158,087</u>	<u>200,593</u>	<u>139,559</u>	<u>113,390</u>	<u>75,121</u>
TRANSFERS TO RESERVES	<u>181,855</u>	<u>179,525</u>	<u>148,350</u>	<u>58,281</u>	<u>35,500</u>
Total expenses and transfers to reserves	<u>1,292,480</u>	<u>1,333,708</u>	<u>1,193,365</u>	<u>1,162,172</u>	<u>844,435</u>
Net revenues, expenses, transfers	<u>\$ 663,953</u>	<u>\$ 292,431</u>	<u>\$ 234,412</u>	<u>\$ 187,543</u>	<u>\$ 215,779</u>

This schedule is prepared to present revenues and expenses related to current operations only (excludes member contributions and depreciation) and includes transfer to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.

<u>9/30/2000</u>	<u>9/30/1999</u>	<u>9/30/1998</u>
\$ 714,055	\$ 559,837	\$ 351,479
4,847	2,821	1,529
6,945	830	
62,196	226,016	115,875
<u>5,104</u>	<u>10,838</u>	<u>23,836</u>
<u>793,147</u>	<u>800,342</u>	<u>492,719</u>
201,798	184,253	98,235
69,236	67,001	45,573
1,150	1,663	4,852
32,081	38,020	35,043
17,638	7,267	2,223
62,817	24,192	6,146
624	590	620
74,420	60,193	46,033
5,088	7,216	7,904
8,390	9,373	7,385
5,498	5,492	6,455
16,120	206,373	108,759
347		
<u>495,207</u>	<u>611,633</u>	<u>369,228</u>
441	561	1,296
8,025	10,125	5,525
14,845	14,735	5,850
2,831		
6,445		
34,142	26,354	25,665
5,717	4,273	
<u>72,446</u>	<u>56,048</u>	<u>38,336</u>
<u>35,500</u>	<u>35,500</u>	<u>26,625</u>
<u>603,153</u>	<u>703,181</u>	<u>434,189</u>
<u>\$ 189,994</u>	<u>\$ 97,161</u>	<u>\$ 58,530</u>

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF CASH FLOWS - INDIRECT METHOD
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Operating (loss)		\$ (2,932)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities		
Depreciation expense	\$ 786,913	
Changes in assets and liabilities		
(Increase) in accounts receivable - operations	(69,460)	
(Increase) in prepaid expenses	(2,294)	
Increase in accounts payable	6,304	
Increase in due to others	<u>105,440</u>	
Total adjustments		<u>826,903</u>
Net cash from operating activities		823,971

CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES

Member contributions	6,000,000	
Acquisition of capital assets	(22,394)	
Acquisition of construction in progress	<u>(6,331,056)</u>	
Net cash (used in) capital and related financing activities		(353,450)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	14,132	
Rental income	<u>36,855</u>	
Net cash from investing activities		<u>50,987</u>
Increase in cash		521,508

CASH AT OCTOBER 1, 2004 1,768,149

CASH AT SEPTEMBER 30, 2005 \$ 2,289,657